

Submission on the draft London Plan from Michael Edwards (Policy D6 only)

Summary

This submission argues that policy *D6 Optimising housing density* is a dangerous mistake. It would remove all numerical controls or advisory upper limits on the density of new housing schemes and would instead regulate density using a 'design-led' approach. Developers would be expected to negotiate with planners in each of the boroughs.

Developers decide how much to bid for a site by residual valuation: estimating the disposal value of whatever they will be permitted to build and deducting their expected costs to reach their sensible bidding limit. The 2 main factors a London housing developer needs to anticipate are the density of the scheme and the percentage of social / 'affordable' housing which will be required. If the development plan is clear about both factors and these policies are expected to be enforced then developers will make sensible bids for sites. If the development plan is imprecise or flexible or if the planning authorities are known not to enforce its provisions then developers will tend to bid too much for sites in the expectation that they can recoup their profitability by negotiating relaxations, often citing 'viability' constraints. This will encourage land price escalation.

Elsewhere (in the context of affordable housing requirements) the draft Plan accepts the importance of discouraging developers from over-bidding and creating land price rises “based on hope value” (§ 4.6.13) but the same logic is not applied to density controls. This is inconsistent and a great mistake. It will lead to land price escalation and thus to worsening affordability problems in the entire London housing market and for non-profit producers when they buy sites. Upper limits on density should be retained and enforced.

Background

Since the GLA was created in 2000, London Plans have used an innovative approach to controlling housing density for new housing across the city: density should be proportional to public transport accessibility. In this way most new residents are conveniently placed to use public transport and that, in turn, supports better and more frequent services. By contrast, in the areas which are a long walk from public transport or where services are infrequent, only very little new housing should be allowed. Developments in such places are more likely to generate car trips, so the fewer of them we have, the better. The combined effect of increased density (whether driven by policy or by market forces) with lots of other policies and investments, has been that London has managed the miracle of increasing the proportion of trips made by public transport, cycling and walking in this century. It is arguably London's great achievement.

This very simple idea was embodied in an advisory matrix (a table) in which Public Transport Accessibility Level (PTAL) allows you to read off the range of recommended housing densities. Further refinements were added and the matrix was re-named "sustainable residential quality matrix".

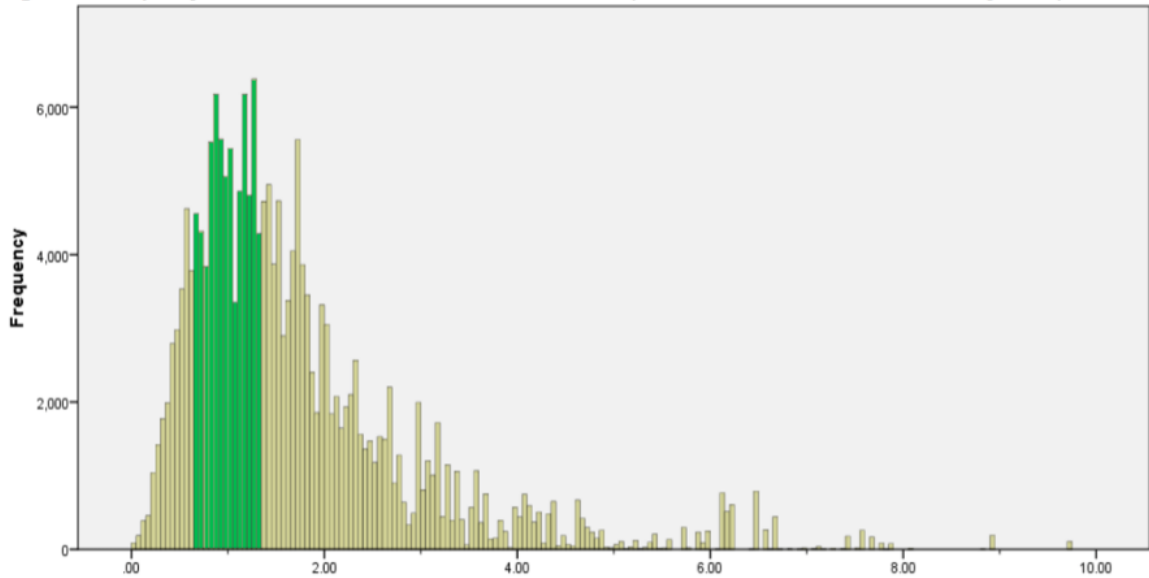
The market in housing land

With the high and rising prices and high rents of open-market housing in London, the speculative construction of housing has been extremely profitable for developers, whose quest for development sites has often been very competitive. This competition among land buyers tends to drive up the prices paid for land which is disastrous for councils and non-profit housing associations seeking to buy land cheaply to provide social housing, but also makes it harder to require private developers to provide a high proportion of social housing or other social benefits within their schemes (agreements under Section 106). Securing social housing and other social benefits in private developments has become much harder since the financial crisis of 2007/8 when a downturn in disposal prices (a brief downturn, as it turned out) enabled developers to claim that they could no longer afford to make such provisions on the same scale, or at all. They became adept at using confidential 'viability' studies to minimise such commitments and the Coalition government of 2010 strengthened their position in new guidance and regulations. The use of 'viability' studies has been fully explored by journalists (Turner) and by academic researchers (Colenutt and others 2015; Sayce and others 2016).

In calculating how much they can afford to bid for land, developers work backwards from what they can expect to realise from final sale or letting of the finished homes, deducting their estimated construction and other costs (plus a mark-up called 'developer's profit') to arrive at a 'residual valuation' —the maximum it's worth them paying. If maximum permitted density is specified in the city plan, then developers have clear limits on what they can build and that is therefore a main determinant of land prices. This is one of the key ways in which state action constitutes land markets —by defining precise development rights which can then be traded.

The London Plan density matrix has been very widely breached and ignored, however. That has been clear for years and in 2016 the GLA commissioned a study by an LSE team (Ian Gordon, Alan Mace and Christine Whitehead) which concluded that the matrix probably had very little effect: the densities of actual building projects could mostly —or better— be explained statistically by direct accessibility measures, neighbourhood density and other attributes. [see their report and Chart 3.2 below] The researchers were interested in how to improve forecasts of future built densities and proposed that the matrix be discontinued. They considered that the London Plan should specify minimum permitted densities but that any setting and negotiation of maximum levels should be a matter for the 33 London boroughs whose professional officers and elected politicians would best be able to know what would be accepted in each place.

Figure 3.2: Frequency Distribution of Standardised Bedroom Densities (relative to the norm of the Plan's Density matrix)



Source: our estimates based on 2008-15 completions data from the London Development Database.

Notes: 1. the observation units are sites; 'frequency numbers' relate to numbers of bedrooms among completed dwellings on these sites.;

2: the green area represents our translation to bedroom terms of the acceptable densities of habitable rooms specified for the relevant area in the 2011 Plan's density matrix; 3. The bedroom density ratio is standardised in relation to the mid-point of the specified range for the type of location.

The LSE study is notable, however, for having paid no attention to the effects of density regulation on land prices, so the consequences for the land market of their proposed de-regulation (or re-regulation) are not considered. On 30th October 2017 Prof Gordon confirmed:

"You're clearly right that we did not actually assess the difference that specifying upper limits to local densities might have made in moderating land value inflation in London since 2004. And, though I understand little of land/housing economics, I too would assume that expectations that higher densities were likely to be permitted on particular types of site would increase expectations of its value."

If you, the GLA, have a planning policy which is only advisory and is being widely disregarded or over-ridden in actual decisions, there are two ways to go. You could scrap the policy in favour of an explicit devolution of the issue to local policymakers and negotiators. Or you could improve and tighten-up the policy, making it mandatory. My view is that the GLA is wrong to scrap the matrix because it will further encourage speculative land buyers to over-bid for sites, pushing prices up, confident that they can negotiate high enough densities with the boroughs to get their money back.

Case-by-case negotiation between developers and boroughs has already been responsible for squeezing down the level of social housing provided under Section 106. If the regulation of maximum density becomes even more relaxed than it already is, then I'm expecting land prices to be further pushed upwards.

What the GLA **should** be doing is trying to get much more certainty into the land market by tightening up and enforcing (i) upper density limits (ii) minimum percentages of homes to be let at social rents. (The draft Plan uses the term "affordable". I regard that term as now bereft of meaning, but that's not part of this submission.)

Can I prove I'm right? No. It's based on my understanding of how markets work and is consistent with what practitioners (including many of my ex-students) tell me. It also fits with standard thinking in those countries which have zoning systems where it is a basic rule or axiom that any flexibility or relaxations in density must be strictly codified and only given at a high price — for example the incentive zoning debates in New York. I shall summarise international practice if called to the EiP.

It is significant that the Mayor implicitly accepts that greater certainty will be valuable in the operation of the land market in his new Threshold approach to affordable housing requirements (Policy H6) and explicitly in §4.6.13 where he accepts the importance of discouraging developers from over-bidding and creating land price rises “based on hope value”. However this logic is applied only to affordable housing percentages and only in Opportunity Areas. The same logic ought to apply to upper density limits and throughout London to minimise speculative land price escalation.

Proposal

Policy D6 should be replaced by a new policy.

A revised version of the 2016 density matrix has been proposed by Duncan Bowie in his submission and valuable work was done by GLA and TFL last year to refine the PTAL accessibility measures and take account of bus and train service capacity. The Just Space Community-led Plan proposes that density controls take account of social infrastructure capacity. If a more sophisticated version of the matrix cannot be brought forward in time for for the EiP I would support retention of the 2016 matrix for use in boroughs which have not yet completed acceptable Design Codes (policy H2B(2)) which in turn would have to include transparent density limits.

For the avoidance of doubt

1. Nothing in the density matrix prevents the good design which the draft Plan is so keen to encourage. Indeed it fosters the clustering of denser settlement in pedestrian-friendly configurations where accessibility is best. Architects and other designers can do brilliant work within density limits.
2. This submission is not an argument for any particular level of density.
3. Is this all I have to say about the draft Plan? No, but I am privileged to be able to contribute, along with colleagues and students, to other submissions on wider sets of topics, notably [Just Space](#) and the [Highbury Group](#).

4. Biographical detail. **Michael Edwards** studied economics, then planning at UCL 1964-6. He worked in Nathaniel Lichfield's practice, doing economic inputs to the Plan for Milton Keynes. He has enjoyed lecturing at the Bartlett School, UCL since 1969, founding and teaching on a Masters programme European Property Development and Planning which was centrally concerned with how planning constitutes and interacts with markets. He has been involved in all the EiPs on London Plans since 2000, working with the network of community groups JustSpace.org.uk His publications are at michaelledwards.org.uk and he tweets as [@michaellondonf](https://twitter.com/michaellondonf) . His 2015 paper on ***The prospects for housing, rent and land over the next 45 years***, commissioned by the Government Office for Science Foresight project on the future of UK cities is at <http://bit.ly/1Nvjmv7> He is now a semi-retired Honorary Professor at UCL.

References and support

Toby Lloyd at Shelter in his February blog post called for similar changes - not on density but on affordable housing proportions, space standards, viability tests, with good graphics. <http://blog.shelter.org.uk/2017/02/time-to-look-again-at-viability>

Colenutt, B, A Cochrane and M Field (2015) "The rise and rise of viability assessment" *Town and Country Planning* **64**(10): 453-458

Gordon, I, A Mace and C Whitehead (2016) Defining, Measuring and Implementing Density Standards in London *London Plan Density Research Project 1* London, LSE <http://eprints.lse.ac.uk/68515>

Just Space 2016 Towards a Community-led Plan for London, at [Just Space A4 Community-Led London Plan](#)

My correspondence with Ian Gordon is appended, with permission, to an earlier version of this document at <https://michaelledwards.org.uk/2017/10/28/dont-dump-density-alarm/>

Sayce, S, N Crosby, A Parsa, R Harris and P Garside (2016) *Viability and the planning system: the relationship between economic viability testing, land values and affordable housing in London*, University of Reading <http://centaur.reading.ac.uk/68820/>

Turner, George (2018), <http://www.ourcity.london/financial-viability-in-planning/>

Peter Bill (2018) in ***Property Week*** is spot on with a short article [Khan's heartless London Plan is good news for developers](#) "‘Densification’ is the Big Idea. A prescription that will promptly jack up values on the right land."